Pacific Petroleums Ltd. annual report 1967

AR31

THE COVER

PACIFIC 66 PLAZA

The 22-storey office building depicted in the cover painting is Pacific 66 Plaza, which is now under construction in downtown Calgary. Upon the building's scheduled completion in September, 1969, Pacific will occupy the top 16 floors and Pacific 66 Plaza will be the Executive Office of the Company.

The $7,500,000 structure requires no major capital investment by Pacific. The building will be owned by Maxwell Cummings & Sons, a Montreal firm which is extensively engaged in real estate investment and development in many parts of Canada and the United States.

Pacific has negotiated a 25-year lease with the owner-developers, and, under the terms, the Company has options to occupy additional floors as its office space requirements increase. As the prime tenant, Pacific is also entitled to approve all plans and specifications for the new building in order to ensure that the architecture and construction are entirely suitable to the Company.

In moving to the new site, the Company will vacate the Pacific Building where its Executive Office has been situated since 1953. When the Pacific Building was erected, the Company's sales were less than $1,000,000 per year and total assets amounted to $10,000,000. Today, with annual sales of more than $71,000,000 and total assets of $377,000,000, Pacific has outgrown the present quarters and is in need of larger facilities to accommodate the continuing expansion of its operations.

CONTENTS

Directors and Officers 1
The Year in Brief 2
Message to Shareholders 3
Financial Review 4
Exploration and Development 6
Sales 8
Manufacturing 10
Financial Statements 12
10-year Statistical Review 16
Corporate Information . . . . . Back Cover

Pacific Petroleums Ltd.

INCORPORATED UNDER THE LAWS OF THE PROVINCE OF BRITISH COLUMBIA

BOARD OF DIRECTORS

A. PATRICK BOWSHER	*Senior Vice-President, Pacific Petroleums Ltd., Calgary, Alberta.*
JOHN GETGOOD	*Vice-President Sales, Phillips Petroleum Company, Bartlesville, Okla.*
KELLY H. GIBSON	*President, Pacific Petroleums Ltd., Calgary, Alberta.*
JOHN M. HOUCHIN	*Chairman of the Executive Committee, Phillips Petroleum Company, Bartlesville, Okla.*
EDWIN C. McDONALD	*Chairman of the Board, Royal Bank of Canada Trust Company, New York, N.Y.*
FRANK M. McMAHON	*Chairman of the Board, Westcoast Transmission Company Limited, Vancouver, B.C.*
GEORGE L. McMAHON	*Nassau, Bahamas.*
L. MERRILL RASMUSSEN	*Senior Vice-President, Pacific Petroleums Ltd., Calgary, Alberta.*
COLIN WEBSTER	*President, Canadian Import Limited, Montreal, Quebec*
NORMAN R. WHITTALL	*Industrialist, Vancouver, B.C.*

OFFICERS AND SENIOR MANAGEMENT

KELLY H. GIBSON	*President and Chief Executive Officer*
A. PATRICK BOWSHER	*Senior Vice-President and Chief Financial Officer*
L. MERRILL RASMUSSEN	*Senior Vice-President*
REX A. HARFIELD	*Vice-President Sales*
A. M. McINTOSH	*Vice-President Exploration and Production*
W. H. TYE	*Vice-President and Treasurer*
JOHN ANDERSON	*General Counsel and Secretary*
R. H. STONE	*Manager Manufacturing*
WILLIAM SIDJAK	*Manager Special Projects*

EXECUTIVE CHANGES

L. MERRILL RASMUSSEN, formerly Vice-President Exploration and Production, was appointed a Senior Vice-President on September 1, 1967. In January, 1968, he was appointed to the Board of Directors, replacing James E. Chisholm, formerly Executive Vice-President, who resigned to accept a position with Phillips Petroleum Company. Mr. Rasmussen, who is 47 years old, is a native of Alberta and a graduate in petroleum engineering from the University of Oklahoma. He has been active in the Canadian petroleum industry for the past 20 years, with Pacific since 1959.

A. M. McINTOSH, formerly Manager of Production, was appointed Vice-President Exploration and Production. Mr. McIntosh, who is 42 years old, was graduated from the University of Alberta in 1951 with a Bachelor of Science degree in petroleum engineering. He has been associated with Pacific throughout his professional career.

W. H. TYE, formerly Assistant Treasurer and Manager of Accounting and Services, was appointed Vice-President and Treasurer. Mr. Tye, who is 42 years old, holds a Bachelor of Commerce degree from the University of Alberta. He has had 14 years of industry experience and has been with Pacific since 1958. As Treasurer, he succeeded A. P. Bowsher who held that post for the past 30 years. Mr. Bowsher continues as Chief Financial Officer and as a Senior Vice-President of the Company until his planned retirement in April, 1968.

JOHN ANDERSON, formerly Chief Legal Adviser, was appointed General Counsel. He is also Secretary of the Company. Mr. Anderson, who is 42 years old, is a law graduate of the University of British Columbia. He has practiced in the Canadian petroleum industry for the past 19 years and has been associated with Pacific since 1961.

THE YEAR IN BRIEF

	1967	1966	% Increase
FINANCIAL			
Total Revenues	$ 72,278,000	$ 61,998,000	16.6
Cash Generated	$ 26,626,000	$ 20,982,000	27.0
Per Share	1.27	1.00	
Net Profit	$ 11,010,000	$ 6,826,000	61.3
Per Share	.53	.33	
Cash Dividend	$ 3,135,000	–	
Per Share	.15	–	
Shareholders' Equity	$244,019,000	$235,675,000	3.5
Per Share	11.67	11.29	
Number of Shareholders	41,128	39,250	4.8
Shares Outstanding	20,911,429	20,868,198	
OPERATING			
Oil, Liquids (bbls/day)	40,711	39,806	2.3
Natural Gas (Mcf/day)	259,000	216,000	19.9
Refined Product Sales (M/gals)	351,620	344,068	2.2

TO THE SHAREHOLDERS:

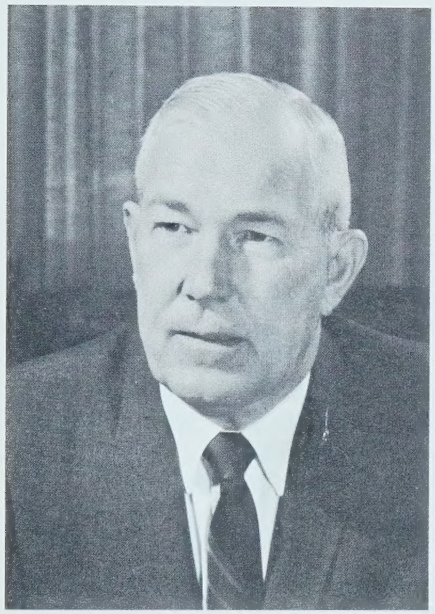
The year 1967 was the most successful in the history of the Company. Operations, which are detailed throughout this Report, were marked by the following accomplishments:

Net profit rose 61% to $11,010,000, or 53c per share, from $6,826,000, or 33c per share, in the previous year.

Sales revenues reached $71,551,000, up $10,000,000 from 1966.

Cash generated from operations increased a record 27% and amounted to $26,626,000 or $1.27 per share.

In view of these favorable trends, the Board of Directors decided at a meeting in November that payment of dividends was warranted and could be maintained in the future. A dividend policy was initiated in December and resulted in distribution of 28.5% of the 1967 net profit.



KELLY H. GIBSON
President

All phases of operations contributed to the year's achievements. Crude oil and natural gas production were substantially higher. Larger sales volumes and firmer prices led to a $5,000,000 increase in aggregate revenues from the Empress natural gas liquids plant and the Pacific 66 marketing system. These and other favorable operating results were made more beneficial through vigorous cost control.

Looking to the future, Pacific's prospects appear excellent. Wider markets for Canadian crude oil are being opened in the U.S. Midwest and this, combined with the increased domestic consumption, ensures an expanding future for Pacific and other Canadian producers. The outlook for increased Company gas sales is even more immediate and optimistic. In February, 1968, Westcoast Transmission Company Limited was licensed to increase its exports to the U.S. by 200 million cubic feet per day. Pacific, as Westcoast's major supplier, will furnish from 45% to 50% of this gas. Substantial sales growth also is a certainty for the Company's natural gas processing plant at Empress following the recent 50% expansion of the plant's capacity.

With the realization of its many promising prospects, Pacific will continue the steady trend of earnings improvement established over the past five years. In this period, as net profits have more than tripled, the Company's earnings have grown at an average annual rate of 29%. Although the maintenance of this high rate becomes more difficult with every annual enlargement of the total profit, the Company is confident it will attain the 20% growth range in 1968 and in the immediate future.

The Company deeply regrets the loss through retirement of two outstanding individuals who have contributed enormously to Pacific's growth and success. George L. McMahon, one of the founders of the Company, has chosen to retire from the Board of Directors at the expiration of his present term. Mr. McMahon's association with Pacific was filled with achievements in many executive capacities including that of President from 1952 to 1960. A. Patrick Bowsher, Senior Vice-President and Director, will retire in April. Mr. Bowsher holds the distinction of being Pacific's first employee. He has been Chief Financial Officer of the Company since its incorporation and has given Pacific more than 30 years of invaluable and dedicated service.

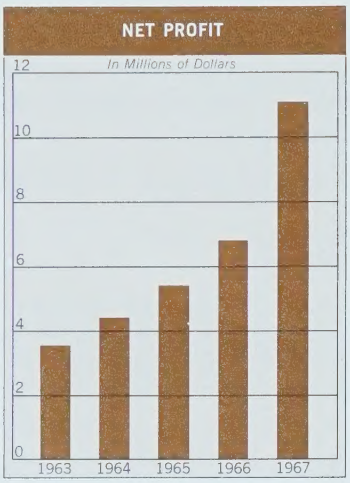
The Directors thank the employees for their good work and, at the same time, express appreciation to the Company's customers and shareholders for their continued support.

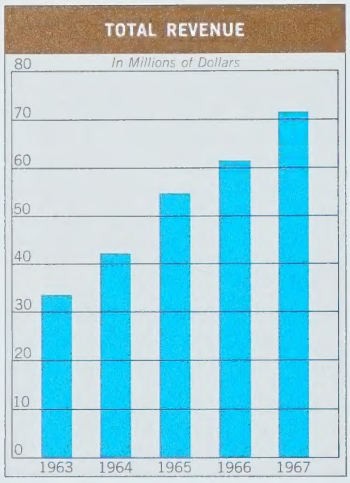
For the Board of Directors

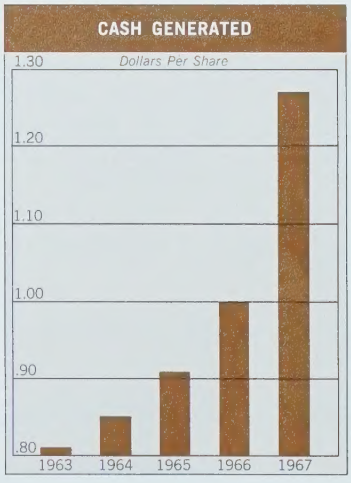
Kelly Gibson

President

FINANCIAL REVIEW







The Company achieved highly satisfactory financial results in 1967. Consolidated net income was $11,010,289 or 53c per share representing a 61% increase over the previous year when net income was $6,826,399 or 33c per share. Cash generated from operations increased to $26,625,962 or $1.27 per share from $20,982,737 or $1.00 per share achieved in 1966.

Revenue and Expenses: Consolidated revenues for 1967 totalled $72,278,001, 16% higher than the $61,997,535 recorded in 1966. All aspects of the Company's business contributed to this expansion. There was a particularly significant advance in revenues from the sales of natural gas liquids and refined products as a result of improvement in sales prices during the year.

Cash operating expenses for the year totalled $45,652,039, an increase of $4,637,241 or 13% over 1966. Virtually all additional expenses are directly related to the higher levels of production which resulted in the year's 16% gain in revenues. General and administrative expenses as well as interest charges remained relatively unchanged.

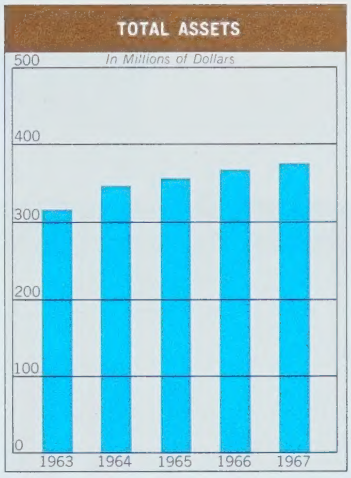
With reference to expenses, it is noteworthy that cash operating expenses absorbed 63% of total revenues in 1967, representing a reduction from the 66% level of the previous year. This favorable change resulted from greater operating efficiency and it was achieved despite the continuing diversification of the Company's operations. In this diversification, as shown in the accompanying charts, an increasing proportion of total revenues is attributable to refined product sales, which by their nature yield lower margins than sales of crude oil and natural gas.

Cash Flow and Financing: The total inflow of funds during the year was $51,571,082. Of this amount $26,625,962 was generated from operations, $22,980,497 was obtained through borrowing and the remainder from other sources.

The financing during the year included $12,280,000 in bank and institutional loans. These funds were principally employed in the Company's exploration and development program and for the expansion of the Pacific 66 marketing system. During the latter part of the year the Company drew down $10,700,000, being the proceeds of long-term financing which had been previously arranged for the Empress Project expansion. Of this amount, $2,900,000 was surplus to immediate requirements. This was re-invested and will be available to meet anticipated project expenditures in late 1968 and 1969.

Additions to property, plant and equipment amounted to $38,213,910. A total of $3,302,413 was applied to other investments together with the acquisition of shares in subsidiaries. In addition $6,562,333 was paid in reduction of debt obligations. These outlays coupled with the $3,134,692 dividend payment accounted for the total application of funds received during the year.

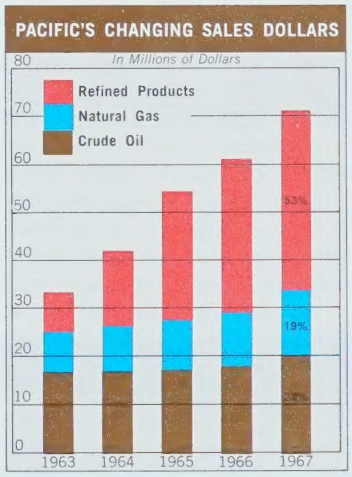
Details of the Company's funded debt are set out in the attached statements. Average annual interest costs on present debt is 5.6%. The absence of onerous debt restrictions and the Company's favorable record of performance provide assurance of the availability of funds for future development and expansion. No major borrowing is anticipated in 1968 other than through temporary bank loans.



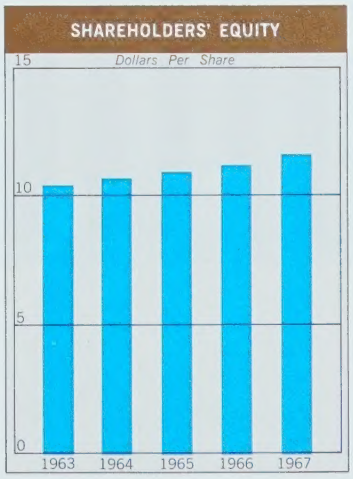
Working Capital: The Company maintained a strong working capital position throughout the year. At December 31, 1967 the working capital totalled $8,675,147, an improvement upon its position at the previous year-end. Accounts receivable and inventories of material and supplies were at satisfactory levels in view of the increased revenues and activity. Accounts payable show a moderate increase which is consistent with the expansion of business during the year. Current liabilities with respect to long-term debt have increased in accordance with the Company's debt amortization schedule.

Investments: Pacific owns 1,722,712 shares of Westcoast Transmission Company Limited, 26% of the issued capital stock of that company which was acquired for a total consideration of $11,735,648. The quoted market value of these holdings at year end was $37,469,000.

During 1967 Westcoast paid an initial cash dividend of 25c per share in respect of which Pacific received $430,678. Other investments increased $2,220,205 during the year. The major portion of this increase is represented by the purchase of $1.7 million in secured notes having a term of more than twelve months.

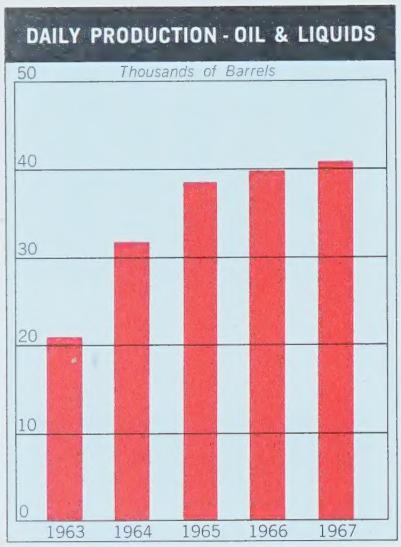


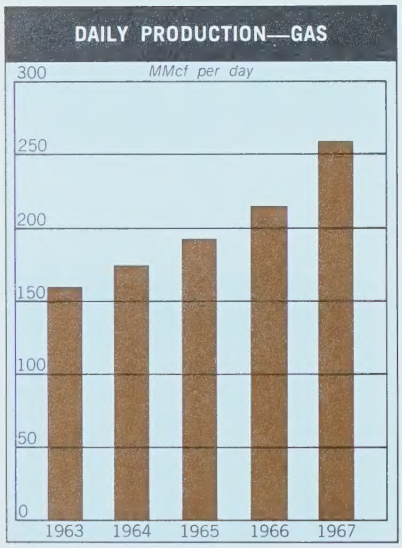
Income Taxes: Under the Canadian Income Tax Act all costs incurred in the acquisition and maintenance of petroleum lease rights, exploration and drilling may be deducted from income in the year of expenditure or, if such expenditures exceed the income for the year, the excess may be carried forward indefinitely to be applied against the income of future years. The Company and its principal subsidiaries have accumulated deductible expenditures in excess of $112,000,000 which, augmented by future expenditures, will be sufficient to offset tax liability for many years. For this reason, the Company has not given effect to any theory of tax allocation which would require a deduction from current income in respect of future income taxes.



Depreciation and Depletion: As a result of the increased production rates in 1967, coupled with the increase of assets employed, non cash charges, principally depletion and depreciation, increased by $1,459,335 or 10% to $15,615,673. Approximately 95% of the Company assets are amortized on unit-of-production methods based on proven oil and gas reserves. The remaining 5% of the assets are depreciated at varying percentage rates, ranging from 4% to 30%, using straightline or diminishing balance methods.

EXPLORATION AND DEVELOPMENT





The Company carried out an active program of exploration and development during 1967. The year's capital commitments in this phase of operations totalled $21,000,000. The 1967 outlays were approximately $6,000,000 below the record level of the previous year.

In the 1967 program, Pacific drilled or participated in drilling a total of 132 wells, 38 of which were exploratory and 94 development wells. The exploratory drilling resulted in eight discoveries of oil and seven discoveries of natural gas. This success ratio of 39% was the highest achieved by the Company in its wildcat drilling operations in the past five years and it compared with an average of 29% attained last year by the Canadian industry as a whole. The Company's development drilling resulted in 43 oil wells and 34 gas producers, a success ratio of 81%. In this type of drilling, the industry-wide success average last year was 80%.

Crude Oil: The successful oil wells completed last year included discoveries on Company properties in Alberta and British Columbia. One of the Alberta wells was completed in the Sousa area which lies approximately 15 miles northeast of the Rainbow-Zama oilfields. Pacific is continuing its activity in the general Rainbow-Zama area during the current winter drilling season. The successful wildcats in British Columbia included two stepouts in the Inga area which extended the limits of the Inga field onto land in which Pacific's interest is 49%. In this same general area, another successful stepout found an extension of the Weasel oilfield on 55.5% Pacific interest acreage.

While none of the year's new oil wells was individually a major producer, their aggregate output enabled Pacific to show a satisfactory gain at the year-end in its production of crude oil and liquids. This production, which does not include liquids manufactured at Empress, increased 9% during the year, equalling the growth rate achieved in 1967 by the Canadian industry as a whole.

Natural Gas: The Company's gas production gained 20% in 1967, rising from 216 million to 259 million cubic feet per day. This compared with an industry-wide growth rate of 11%. Most of Pacific's additional gas sales were made to the Westcoast Transmission pipeline system in the Peace River and Fort Nelson areas of northeastern British Columbia. A major portion of the 1967 drilling program was carried out in these areas to explore for and develop additional reserves for delivery to Westcoast. These drilling operations were highly successful and resulted in the completion of 18 additional gas wells.

Two significant gas discoveries also were made by the Company last year in the Province of Alberta. At Whitecourt, in the central part of the province, gas reserves were developed in multiple zones on a 119,000-acre block in which Pacific has a 100% working interest. Since the discovery, Pacific's holdings in this area have been supplemented with the purchase of 13,760 gross acres. A major development program will be carried out on this property. In the Black Diamond area, southwest of Calgary, an exploratory well found 106 feet of net pay and flowed at a rate of 7.8 million cubic feet per day. Gas from the discovery well is rich in condensate and has a high sulphur content. This appears to be an important new field and development drilling is planned to determine its extent.

Much of Pacific's natural gas is produced in remote areas of northern British Columbia where fields are widely separated and, because of poor road conditions, are frequently inaccessible by surface transport. The Company has solved many of the inherent production problems by installing electronic controls by which the wells can be operated from a central control station many miles away. When a malfunction occurs, a repair man is quickly dispatched to the well site in one of the Company's light aircraft.

After 1967 production, remaining Company reserves of oil and liquids at the year-end were estimated to be 231 million barrels while estimated reserves of natural gas were 3.9 trillion cubic feet.

Mining Exploration: The limited program of mining exploration which was begun by the Company in 1965 was continued through the past year. In association with several major mining firms, Pacific participated in mineral prospecting ventures in Newfoundland, Quebec, Ontario and British Columbia. This exploratory work was mainly oriented toward development of deposits of copper, silver, molybdenum, tungsten and other industrial and base metals. Encouraging results were obtained in several of these projects, but considerable follow-up work remains to be done before their commercial potential can be determined.

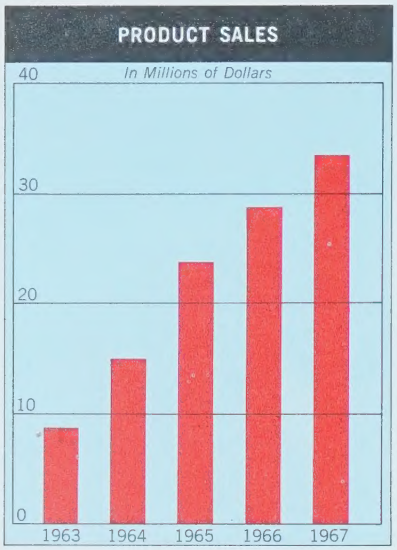
Early in 1968, Pacific concluded an agreement with a Canadian mining syndicate to explore a large block of claims in the Blind River area of Ontario where the major Canadian deposits of uranium have been discovered. A program involving 10,000 feet of diamond drilling will be carried out on this property in the coming summer.

Land: During 1967, the Company's land holdings were increased by 108,000 net acres.

As a result of exploratory drilling under farmout agreements and other evaluation work, a substantial amount of unproved land was adjudged to be non-prospective and was surrendered. This released acreage was replaced through acquisition of 603,000 acres in western and northern Canada. The largest block of these new properties is in the Arctic islands of the Northwest Territories. Ten new permits covering 490,000 gross acres were added to the Company's interests in the Far North, increasing Pacific's holdings to 4,038,000 gross acres in this vast exploration area.

SALES

Sales of refined and manufactured products showed a substantial increase in 1967. Revenues from this phase of operations totalled $37,400,000, an increase of 17% over the previous year.

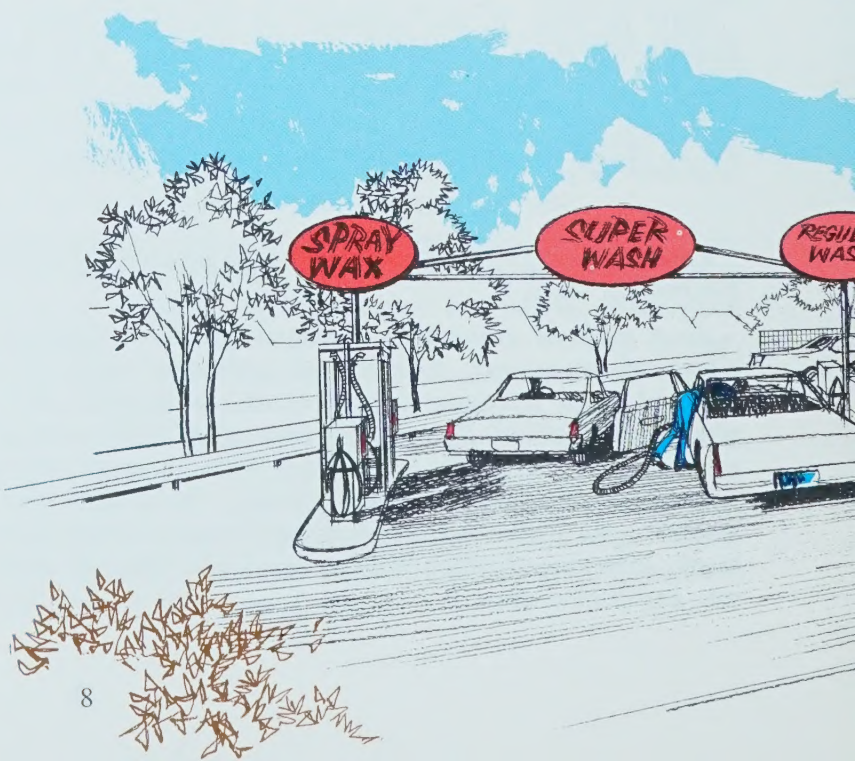


Retail Marketing: A major factor in the year's sales growth was the continued successful expansion of the Pacific 66 marketing system in Western Canada. The Company added 60 retail outlets during the year, extending its market development in Winnipeg and other urban areas of Manitoba and into the Lakehead area of Ontario.

In its new markets as well as in established ones, Pacific enjoyed exceptionally strong patronage from the motoring public. The Company's retail sales volume showed a 28% increase over the previous year, as compared to an indicated 4% growth rate in the Western Canada market as a whole. The number of Pacific 66 credit cards in circulation rose 43% in 1967 and sales to credit card holders were 42% greater than in 1966.

During the past year, there was a long-overdue improvement in retail gasoline prices in the Canadian market. As a result, the contribution made by retail gasoline sales to the total revenues of the Company was proportionately larger than in the past.

Wholesale Sales: A 36% increase was recorded last year in Pacific's wholesale sales of refined oil products. This was the result of an expansion program in which 14 new bulk plants were opened, most of them at major centers throughout the Prairie Provinces. With better supply facilities established, a concerted sales effort was made to acquire industrial accounts and this led to the negotiation of a number of major contracts. In another sales project last year, the Company introduced the "Sure Fire Home Heating Plan" under which householders were enabled to contract with Pacific on an installment basis for heating equipment, servicing and fuel. This program was well received and enabled the Company to move strongly into the heating oil market.



Most of the new Pacific 66 service stations being opened throughout Western Canada are designed to be large-volume outlets. They are strategically located on busy thoroughfares and combine service station facilities with other businesses such as restaurants, car washes or specialized automotive depots. Sketched here is one of the new Pacific car wash outlets nearing completion on heavily-travelled Portage Avenue in Winnipeg, Manitoba

L.P.G. Marketing: During the year, while the expansion program was being completed at the Company's Empress Plant, there was a slight decline in Pacific's production of natural gas liquids. Nevertheless, the Company increased its L.P.G. sales and revenues in 1967 and strengthened its position as the leading marketer of gas liquids in Canada.

Market demand and prevailing prices for L.P.G. remained at high levels throughout the year and, in order to take advantage of these favorable conditions, the Empress Plant operated close to its rated capacity at all times. When the Empress production fell short of market requirements, it was supplemented with reserve supplies drawn from the Company's underground storage cavern near Regina, Saskatchewan. In this way, the Company managed to offset the temporary decline in L.P.G. production and succeeded in marketing a slightly larger volume of product than in 1966. The price improvement which had occurred in the interim made the 1967 sales considerably more profitable and Company revenues from them were more than $2,000,000 greater than in the previous year.

A new and highly successful advertising theme has been introduced at Pacific 66 service stations during the past year. In the campaign, customers are urged to stop at Pacific stations for a "Big Sky Western Welcome" and get "Ten Gallon Service" from a "Pacific Top Hand" in a crested white cowboy hat.

Plastics: The plastics manufacturing firms in which Pacific holds interests increased their total production and sales in 1967. These are Midland Industries Limited, which manufactures molded plastics at Midland, Ontario, and Leco Industries Limited, which operates film extrusion plants in Ontario and Quebec.

Pacific continued to make progress in developing the Canadian market for Marlex, the patented brand of polyolefin resins which the Company is licensed to import and sell in Canada. Sales of Marlex increased 50% during 1967.

MANUFACTURING

Pacific's manufacturing operations in 1967 were highlighted by the expansion of the Empress natural gas processing plant and of the Company's refinery at Taylor, B.C.

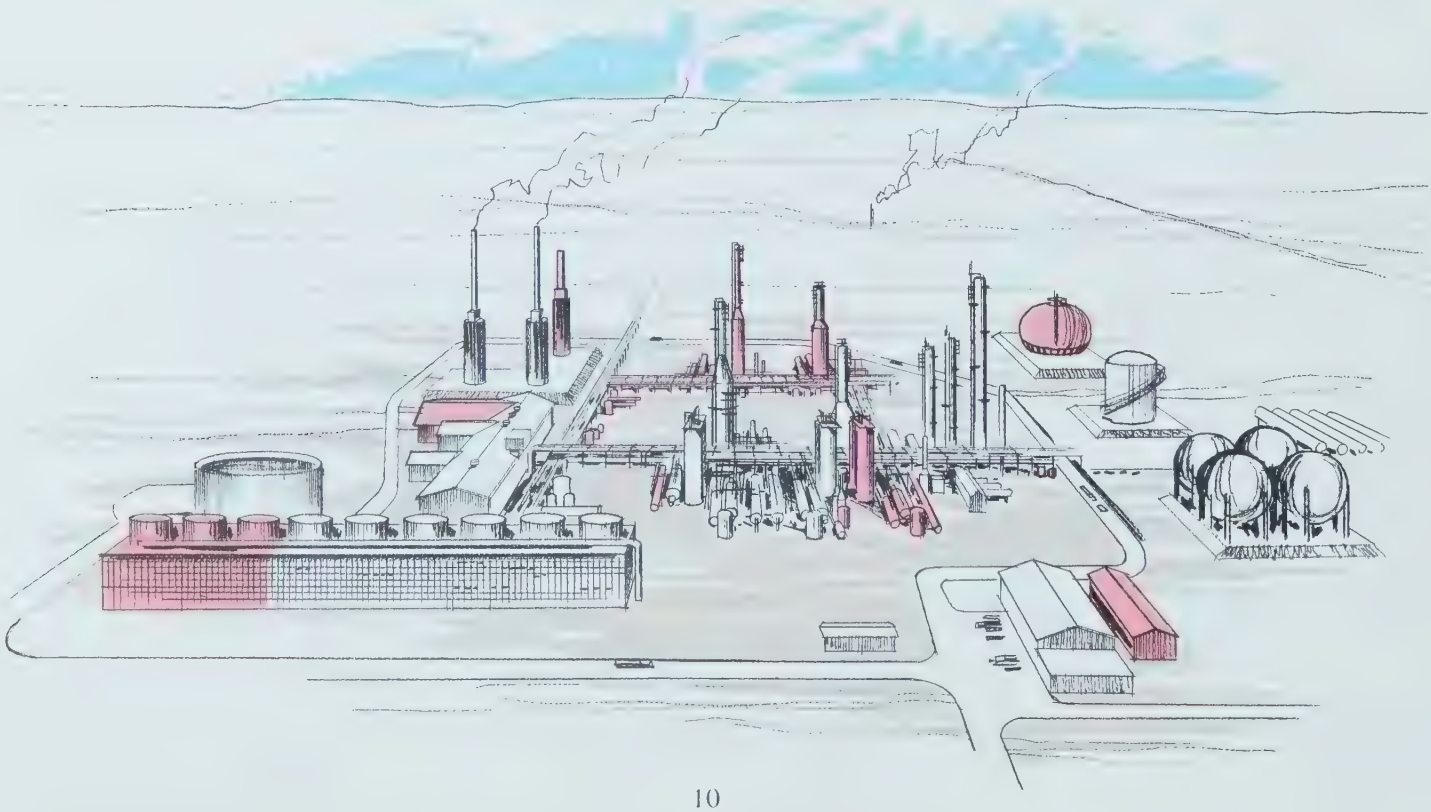
Work on the Empress expansion was commenced late in 1966 and proceeded throughout the past year. As a result of some labor stoppages by contractors' employees, the project was completed slightly behind schedule in the latter part of December. The new facilities costing $8,200,000, increase the plant's processing capacity from one billion to 1.5 billion cubic feet per day.

While the new construction was in progress, the Empress plant operated above its rated capacity through 1967, processing an average of 1.05 billion cubic feet per day. This throughput was 4.3% greater than in 1966 but because the liquid content of the gas was lower, liquids production was below the level of the previous year.

The throughput of Trans Canada Pipe Lines, which is processed at Empress, will exceed 1.3 billion cubic feet per day in 1968 and is scheduled to increase to 1.5 billion in 1969. With the plant's new facilities processing these additional volumes, an immediate and substantial increase is anticipated in Empress production.

Expansion of the Taylor, B.C. refinery was initially designed to increase that plant's productive capacity from 11,000 to 14,000 barrels per day. However, a subsequent decision was made in 1967 to supplement the initial program and, with additional installations, to raise the daily capacity to 15,500 barrels. Work on the first phase of the project proceeded through 1967 and was completed on schedule at the year-end. The supplementary facilities are now being installed and these are expected to come on stream early in 1969.

In the past year, an $8,200,000 expansion program was completed at the Company's Empress natural gas processing plant. The colored portions of this sketch are the installations which were added to the Empress facilities in order to enlarge the plant's processing capacity from one billion to 1.5 billion cubic feet per day.



Pacific Petroleums Ltd.

FINANCIAL STATEMENTS

STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS
STATEMENT OF CONSOLIDATED PAID-IN SURPLUS
STATEMENT OF CONSOLIDATED FINANCIAL POSITION
STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS
AUDITORS' REPORT TO THE SHAREHOLDERS
NOTES TO FINANCIAL STATEMENTS
TEN-YEAR FINANCIAL AND STATISTICAL REVIEW

STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS

Years Ended December 31, 1967 and 1966
(Canadian Dollars)

	1967	1966
Sales of crude oil, gas and refined products	$ 71,550,878	$ 61,557,329
Interest and other investment income	727,123	440,206
Total revenue	72,278,001	61,997,535
Deduct:		
Product and merchandise purchases	17,161,650	13,339,045
Producing, refining and selling expenses	19,043,179	18,050,274
General and administrative expenses	2,338,235	2,465,184
Interest on long term debt	6,841,133	6,643,722
Income taxes (Note 7)	267,842	516,573
	45,652,039	41,014,798
Cash generated from operations (Per share, 1967 – $1.27; 1966 – $1.00)	26,625,962	20,982,737
Deduct:		
Provision for depletion	9,816,831	9,241,088
Provision for depreciation	5,412,490	4,406,554
Amortization of debt discount and expense	386,352	508,696
	15,615,673	14,156,338
Net income for the year (Per share, 1967 – $.53; 1966 – $.33)	11,010,289	6,826,399
Earned surplus at beginning of year	16,175,630	9,349,231
	27,185,919	16,175,630
Dividends paid	3,134,692	—
Earned surplus at end of year	$ 24,051,227	$ 16,175,630

STATEMENT OF CONSOLIDATED PAID-IN SURPLUS

Years Ended December 31, 1967 and 1966
(Canadian Dollars)

	1967	1966
Balance at beginning of year	$198,631,065	$198,510,202
Premium on shares issued (Note 5)	425,756	120,863
Balance at end of year	$199,056,821	$198,631,065

(see accompanying notes)

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

December 31, 1967 and 1966

(Canadian Dollars)

NET ASSETS

	1967	1966
CURRENT ASSETS		
Cash	$ 1,092,245	$ 683,457
Short term and demand deposits	1,230,938	—
Marketable securities at cost (quoted market value 1967 – $870,500; 1966 – $699,000)	180,206	216,346
Accounts receivable	15,694,201	15,987,223
Inventories valued at the lower of cost or replacement cost		
Crude oil, refined products, and merchandise	4,697,971	3,358,774
Material and supplies	1,829,606	1,738,934
	24,725,167	21,984,734
Deduct CURRENT LIABILITIES		
Accounts payable and accrued liabilities	11,412,923	10,572,582
Long term debt due within one year	4,637,097	3,094,739
	16,050,020	13,667,321
WORKING CAPITAL	8,675,147	8,317,413
INVESTMENTS		
Westcoast Transmission Company Limited – 1,722,712 shares at cost (quoted market value 1967 – $37,469,000; 1966 – $43,894,000)	11,735,648	11,735,648
Other investments at cost less allowance (Note 9)	4,279,867	2,059,662
	16,015,515	13,795,310
PROPERTY, PLANT AND EQUIPMENT at cost (Note 2)	450,273,260	414,470,779
Less depletion and depreciation	110,009,460	96,137,242
	340,263,800	318,333,537
OTHER ASSETS (Note 4)	11,966,522	11,711,976
TOTAL ASSETS LESS CURRENT LIABILITIES	376,920,984	352,158,236
Deduct LONG TERM DEBT (Note 3)	132,901,507	116,483,343
NET ASSETS	$244,019,477	$235,674,893
COMMITMENTS AND CONTINGENCIES (Note 6)		

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 5)		
Authorized – 30,000,000 shares of a par value of $1.00 each		
Issued – 20,911,429 shares (1966 – 20,868,198 shares)	$ 20,911,429	$ 20,868,198
PAID-IN SURPLUS	199,056,821	198,631,065
EARNED SURPLUS	24,051,227	16,175,630
SHAREHOLDERS' EQUITY	$244,019,477	$235,674,893

(see accompanying notes)

ON BEHALF OF THE BOARD

Kelly Gibson
Director

C. A. Dawson
Director

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

Years Ended December 31, 1967 and 1966

(Canadian Dollars)

	1967	1966
Funds provided by:		
Cash generated from operations	$26,625,962	$20,982,737
Long term borrowing	22,980,497	2,600,000
Sale of property, plant and equipment	1,495,636	1,349,838
Issue of shares	468,987	131,567
	51,571,082	25,064,142
Funds applied to:		
Additions to property, plant and equipment including exploration and development	38,213,910	27,293,969
Reductions of long term debt	6,562,333	3,501,572
Payment of common share dividend	3,134,692	—
Purchase of investments	2,252,300	151,549
Additions to other assets	640,898	877,431
Acquisition of shares of subsidiaries	409,215	1,880,024
	51,213,348	33,704,545
Net increase (decrease) in working capital	357,734	(8,640,403)
Working capital at beginning of year	8,317,413	16,957,816
Working capital at end of year	$ 8,675,147	$ 8,317,413

AUDITORS' REPORT

To the Shareholders of Pacific Petroleums Ltd.

We have examined the statement of consolidated financial position of Pacific Petroleums Ltd. and subsidiary companies as at December 31, 1967 and the statements of consolidated income and earned surplus, paid-in surplus and source and application of funds for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, these statements present fairly the financial position of Pacific Petroleums Ltd. and subsidiary companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 2, 1968

CLARKSON, GORDON & CO.
Chartered Accountants

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

Included in the consolidated statements are the accounts of Pacific Petroleums Ltd. and its subsidiaries. The excess of the consideration paid for the shares of purchased subsidiaries over the net book value of the related assets at dates of acquisition is attributable to property, plant and equipment and is included therein in the accompanying statement of consolidated financial position.

The accounts of foreign subsidiaries have been converted to Canadian dollars on the following basis: Current assets and current liabilities at the rates of exchange in effect at the year end, and fixed assets, expenses and revenue at the appropriate month-end rates of exchange.

2. PROPERTY, PLANT AND EQUIPMENT

	1967	1966
Oil and Gas	$363,203,795	$342,236,620
Manufacturing	54,587,712	43,921,310
Transmission	10,354,414	10,327,756
Marketing	14,504,340	11,013,417
Other	7,622,999	6,971,676
	450,273,260	414,470,779
Deduct:		
Accumulated depletion	79,561,506	69,744,675
Accumulated depreciation	30,447,954	26,392,567
	110,009,460	96,137,242
Net property, plant and equipment	$340,263,800	$318,333,537

The companies follow the practice of capitalizing all costs related to the exploration for and development of oil and gas reserves and depleting such costs by a composite unit-of-production method based on total estimated reserves.

3. LONG TERM DEBT

Long term debt due after one year consists of the folowing:

	Maturity Date	1967	1966
5¼% Bank Loan repayable semi-annually (1967 – $2,000,000 U.S., 1966 – $4,000,000 U.S.)	1969	$ 2,155,878	$ 4,311,755
6½% Bank Loan repayable monthly (secured by certain producing properties)	1972	7,268,335	1,798,668
Twenty Year 5% Subordinate Debentures redeemable and subject to annual sinking fund payments (1967 – $9,949,250 U.S.; 1966 – $10,502,250 U.S.)	1977	9,543,885	10,074,808
5½% Secured Notes subject to annual sinking fund payments commencing in 1970 ($26,000,000 U.S.)	1978	28,006,015	28,006,015
6½% Secured Notes subject to annual sinking fund payments commencing in 1971 ($10,000,000 U.S.)	1982	10,780,938	—
5¼% Notes repayable annually commencing in 1970 ($65,000,000 U.S.)	1985	70,115,500	70,115,500
Sundry Mortgages, Notes, etc.	Various to 1988	5,030,956	2,176,597
		$132,901,507	$116,483,343

Long term obligations which are payable in United States funds are recorded in the accounts in equivalent Canadian dollars on the date the funds were borrowed. The current portion of such obligations at December 31, 1967 has been converted to Canadian dollars based on the exchange rate in effect on that date. Sinking fund requirements or retirement provisions in respect of long term debt are $5,220,000 in 1969, $9,998,000 in 1970, $10,873,000 in 1971 and $9,508,000 in 1972.

4. OTHER ASSETS

	1967	1966
Payments under gas processing contract less amortization	$ 4,586,569	$ 4,621,415
Exploration, development and construction in progress	2,755,127	2,357,271
Deferred debt discount and expenses less amortization	2,624,290	3,081,598
Deferred accounts receivable, refundable deposits, etc	2,000,536	1,651,692
	$11,966,522	$11,711,976

5. SHARE CAPITAL

During the year the Company issued 43,231 shares for a consideration of $468,987 as follows: 4,588 shares in acquisition of shares of a subsidiary, 1,823 shares to employees under a share purchase plan, 36,600 shares to directors, officers and employees upon exercise of share options and 220 shares upon exercise of share purchase warrants. Of the total consideration $43,231 was credited to share capital account and the balance to paid-in surplus.

During the year options to purchase 19,000 shares were granted to directors, officers and employees.

Shares of the Company's capital stock were reserved at December 31, 1967 as follows:

	Shares
For exercise of options outstanding to directors, officers and employees to purchase shares at prices ranging from $11.75 to $15.25 per share exercisable from time to time to April 18, 1977.	
Directors and Officers	46,200
Employees	14,300
	60,500
For granting of options to officers and employees under share purchase plans	229,173
For exercise of share purchase warrants relating to the Fifteen Year 5½% Sinking Fund Debentures (redeemed May 3, 1965) at $19 U.S. per unit of 1.1 shares. The warrants expire March 31, 1968	659,780
For acquisition of the remaining Class "A" shares of Bailey Selburn Oil & Gas Ltd.	82,894
	1,032,347

6. COMMITMENTS AND CONTINGENCIES

Various legal actions are in process involving the companies which are incident to the nature of their business. While it is impossible to ascertain the outcome of these actions, it is anticipated that any amounts which may be required to be paid or any assets involved in title disputes will not be material in relation to the companies' total assets.

Annual rental obligations for marketing properties under long term leases at December 31, 1967 amounted to approximately $1,094,000. In addition, the Company has signed an agreement to lease new office space for a period of 25 years commencing in September, 1969 at a gross annual rental of $735,000. These obligations are recoverable in part under sub-leases.

7. INCOME TAXES

Under Canadian income tax law, drilling, exploration and property acquisition costs, which are capitalized in the accounts, are deductible from income in the year incurred, or if such costs exceed income for the year, the excess may be carried forward to subsequent years. As a result, no provision for income taxes was required by the Company for the year ended December 31, 1967 and it is estimated that at that date an excess of such costs of approximately $112,000,000 was available to be carried forward and applied against future taxable income. Taxes on income have been provided in respect of certain subsidiary companies.

8. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

The total remuneration paid during the year to the directors and senior officers of the Company, including all salaries, fees and contributions to pension funds, amounted to $302,561 (1966 – $241,214).

9. SUBSEQUENT EVENTS

In January, 1968 other investments with a carrying value of $1,052,820 were sold for a consideration of $1,975,916. The resulting profit will be included in 1968 income.

TEN-YEAR FINANCIAL AND STATISTICAL REVIEW

	Years Ended December 31						10 Months Ended Dec. 31	Years Ended February 28 or 29		
	1967	1966	1965	1964	1963	1962	1961	1961	1960	1959
FINANCIAL (In Thousands of Canadian Dollars Except Per Share Figures)										
Cash Generated from Operations	$ 26,626	$ 20,982	$ 19,028	$ 17,757	$ 16,775	$ 14,143	$ 8,544	$ 7,229	$ 3,792	$ 2,360
Depletion, Depreciation and similar charges	15,616	14,156	13,302	12,549	12,303	11,108	7,527	9,722	7,366	6,559
Net Operating Profit	$ 11,010	$ 6,826	$ 5,726	$ 5,208	$ 4,472	$ 3,035	$ 1,017	$ (2,493)	$ (3,574)	$ (4,199)
Minority Interest	—	—	266	788	788	—	—	—	—	—
Net Profit (Loss)	$ 11,010	$ 6,826	$ 5,460	$ 4,420	$ 3,684	$ 3,035	$ 1,017	$ (2,493)	$ (3,574)	$ (4,199)
Per Share:										
Cash Generated from Operations	$ 1.27	$ 1.00	$$ .91	$ .85	$ .81	$ .80	$ .57	$ .49	$ .46	$ .30
Net Profit (Loss)	.53	.33	.26	.21	.18	.17	.07	(.17)	(.44)	(.54)
Net Assets before Long Term Debt	18.02	16.88	16.59	14.76	13.80	12.55	12.33	12.66	13.63	14.50
Shareholders' Equity	11.67	11.29	10.96	10.70	10.49	10.05	9.12	9.03	7.50	7.79
Total Net Sales:										
Crude Oil	$ 20,285	$ 18,220	$ 17,329	$ 17,475	$ 16,948	$ 13,183	$ 9,616	$ 9,844	$ 8,020	$ 6,599
Natural Gas	13,860	11,362	10,457	9,357	7,989	7,506	4,568	4,050	1,755	1,824
Manufactured Products	33,769	28,666	23,872	14,722	8,570	7,207	6,019	4,693	1,179	1,071
Other	3,637	3,309	3,073	884	—	—	—	—	—	—
Total	$ 71,551	$ 61,557	$ 54,731	$ 42,438	$ 33,507	$ 27,896	$ 20,203	$ 18,587	$ 10,954	$ 9,494
Working Capital	$ 8,675	$ 8,317	$ 16,958	$ 3,714	$ 3,390	$ 3,323	$ 1,646	$ 1,366	$ 1,883	$ 5,937
Net Assets before Long Term Debt	$376,921	$352,158	$346,102	$307,375	$286,912	$222,803	$183,718	$187,077	$111,130	$113,320
Number of Shares Issued (000's)	20,911	20,868	20,857	20,831	20,802	17,759	14,906	14,776	8,151	7,815
Number of Shareholders	41,128	39,250	38,814	39,200	33,709	30,919	30,259	30,973	31,589	30,031
OPERATIONS										
Daily Production:										
Oil and Liquids (bbls.)	40,711	39,806	38,231	31,366	20,636	16,730	14,585	12,294	9,661	7,548
Natural Gas (mcf.)	259,000	216,000	194,000	175,000	159,000	166,000	139,000	117,000	69,000	75,800
Net Acreage (000's):										
Total	7,982	7,874	6,365	5,384	4,941	3,999	4,606	5,155	3,428	3,717
Proven	371	339	254	232	213	179	158	155	89	74
Net Productive Wells:										
Oil	670	649	622	580	585	400	379	362	268	241
Gas	322	307	261	258	250	202	166	147	61	50
Number of Employees	798	743	688	606	520	370	400	372	388	472

Note: In some instances figures for earlier years have been changed from those previously published to reflect subsequent changes in accounting policies.

CORPORATE INFORMATION

PACIFIC PETROLEUMS LTD.	Incorporated under the Laws of the Province of British Columbia
EXECUTIVE OFFICE	320 - 9th Avenue S.W. P.O. Box 6666 Calgary, Alberta, Canada
REGISTERED OFFICE	406 Mercantile Bank Building 540 Burrard Street Vancouver, B.C.
PRINCIPAL SUBSIDIARIES (wholly or substantially owned)	BAILEY SELBURN OIL & GAS LTD. PETROLEUM TRANSMISSION COMPANY QUEBEC PROPANE INC. VENEZUELAN CANADIAN OILS, C.A. (Venezuela) VENEZUELAN PACIFIC PETROLEUMS, C.A. (Venezuela) WESTERN NATURAL GAS COMPANY, INC. MIDLAND INDUSTRIES LIMITED
STOCK EXCHANGE LISTINGS	NEW YORK, TORONTO, MONTREAL, VANCOUVER, CALGARY AND PACIFIC COAST STOCK EXCHANGES The Shares of Pacific Petroleums Ltd. are exempt from the United States Interest Equalization Tax and in the trading of these Shares neither vendors nor purchasers are liable for this tax.
AUDITORS	CLARKSON, GORDON & CO., Calgary, Alberta, Canada

ANNUAL MEETING

The Annual General Meeting of the Shareholders of Pacific Petroleums Ltd. will be held in the Turner Valley Room, Hotel Palliser, 9th Avenue S.W., Calgary, Alberta, Canada, on April 16, 1968, at 10:00 o'clock in the forenoon. A formal notice of the meeting, together with a proxy statement and a form of proxy for those who are unable to attend, is being mailed to each Shareholder.

Transfer Agents

SHARES

Montreal Trust Company
Vancouver, Calgary, Toronto and Montreal

The Chase Manhattan Bank
New York, New York

Bank of America National Trust
and Savings Association
Los Angeles, California

DEBENTURES

Eastern & Chartered Trust Company
Toronto and Vancouver

Bankers Trust Company
New York, New York

Registrars

SHARES

National Trust Company, Limited
Vancouver, Calgary, Toronto and Montreal

Manufacturers Hanover Trust Company
New York, New York

Security First National Bank
Los Angeles, California

DEBENTURES

Eastern & Chartered Trust Company
Toronto and Vancouver

Bankers Trust Company
New York, New York

PACIFIC PETROLEUMS LTD. P.O. BOX 6666 - CALGARY, ALBERTA

ALCRAFT • CALGARY
LITHOGRAPHED IN CANADA